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**Infra bonds: partake in returns of nation building**

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# Infra bonds: Partake in returns of nation building

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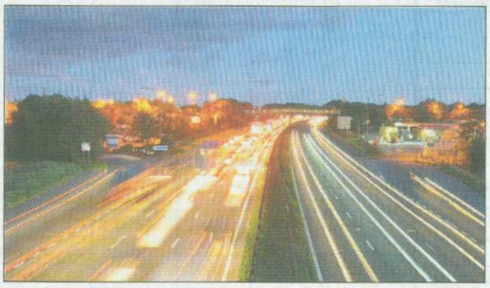
It is said that 'Timely planning of financial matters not only helps in reducing tax liability but also in creating opportunities to build wealth'. In this context, infrastructure (infra) bonds offer an attractive investment option to investors.

Section 80CCF of the Income Tax Act provides an additional deduction of Rs 20,000 (over and above the Rs 1 lakh allowed under section 80C) from the taxable income of an individual for investing in long-term infra bonds. So if you are in the 30% tax bracket, you can save up to Rs 6,180 by investing in these bonds.

So why should you invest in infra bonds, and if you do so, when and how should you exit? By investing in these bonds not only would you get an additional tax relief, but this also gives you an opportunity to contribute, even though in a small way, towards the infrastructure development of the country, since funds mobilised from these bonds are utilised in infrastructure projects only. So infra bonds offer a win-win proposition for both the investor and the government by providing tax relief to you as an investor and also by channelizing the necessary funds required for nation building.



ROAD TO SAVE TAX

Besides the three notified issuers of infra bonds, IFCI, LIC and IDFC, any non-banking finance company classified as an infrastructure finance company by the Reserve Bank of India can issue these bonds.

These bonds come with some unique features. They have a minimum tenure of 10 years, and a minimum lock-in of five years for the investor. At the end of the lock-in period, the investor has the option to exit through the secondary market or through a buyback facility, as may be specified by the issuer.

The bonds which are available in the market carry yearly interest rates of between 8.70% and 9.15%. Although you can get tax benefits only for Rs 20,000 per year, you can invest more and expect to get such returns for the tenure of the bonds. Given the nature of these bonds, capital is almost protected. However, since a large number of players are offering these bonds, you need to be careful while selecting the bond you should invest in.

Give special attention to factors like credit rating of the issuer, interest rate offered, lock-in period and buyback options. For investors, tax benefit is available only in the first year, and interest earned on these bonds is taxable in the year of its receipt. However, TDS is not deducted. While investing, it is mandatory for you to furnish your PAN. And tax benefit will be available only if you yourself have paid for the investments in these bonds.

While investment is one part, exit is the other side. To maximise your returns from the infra bonds, the timing of exit also needs to be planned carefully. For example, in the event of a rise in the interest rates, exercising the buyback option would be prudent, as the cash realized from the buyback can then be reinvested at a better rate of interest. However, in case of a lower interest rates scenario, you would be better off by continuing to remain invested, as in that case even if the interest earned in other investments are lower, you would continue to get a higher rate.

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